UNITED
NATIONS

DP

Governing Council
of the
United Nations
Development Programme

Distr.
GENERAL

DP/1992/15
18 March 1992

ORIGINAL: ENGLISH

Thirty-ninth session
4-29 May 1992, Geneva
Item 3 of the provisional agenda

PROGRAMME-LEVEL ACTIVITIES

The private sector in development: the role of UNDP

Report of the Administrator

I. BACKGROUND

1. This report is submitted in accordance with Governing Council decision 91/11 of 25 June 1991. The decision noted, inter alia, the establishment within the United Nations Development Programme (UNDP) of the Division for the Private Sector in Development (DPSD). In this decision, the Council also requested that the Administrator submit a report to its thirty-ninth session on the role, strategy and comparative advantage of UNDP in the area of the private sector, as well as on UNDP relations with other organizations and specialized agencies of the United Nations system.

2. General Assembly resolution 45/188, entitled "Entrepreneurship", welcomed the contribution of the United Nations system in helping Member States to promote entrepreneurship and requested the Director-General for Development and International Economic Cooperation to include in his annual report on operational activities a section on activities undertaken by the United Nations system to promote entrepreneurship in economic development.

3. General Assembly resolution A/RES/46/166 also recognized the important role that technical cooperation plays in assisting Governments to promote entrepreneurship. It recognized further the central funding role of UNDP in programming that responds directly to national conditions and development priorities. The resolution noted the establishment of the Division for Private Sector in Development and the fact that the Governing Council had already allocated resources, including Special Programme Resources (SPR), to promote private sector development during the fifth programming cycle. The

resolution invited the Director-General for Development and International Economic Cooperation to give due attention to the coordination of activities of the United Nations system in supporting entrepreneurship through relevant United Nations bodies and organizations, including UNDP/DPSD, and to report on a biennial basis on the activities undertaken by the system in this area.

4. The private sector is now being assigned a central role in the development strategies of nations. These strategies include mobilizing entrepreneurs to achieve self-sustaining growth in national development efforts. This world-wide trend was reflected in the national development plans of many countries reviewed by UNDP field offices in preparations for the fifth programming cycle.

5. The above General Assembly resolutions are both a result of, and impetus to, this trend. The General Assembly has assigned UNDP a special role in the implementation of these resolutions in view of the important role technical cooperation can play in this effort, the central funding role of UNDP in this regard, and the fact that UNDP cooperation takes into account national conditions and development priorities.

6. While the strategic objectives and policy options related to the role of the United Nations system in the promotion of private sector development are well identified in the General Assembly resolutions cited, achieving these objectives will be difficult and complex. It requires sustained efforts to transfer and adapt the required skills and knowledge. It further requires the development of concepts and modalities tailored to the particular needs of each country, taking fully into account indigenous social, economic, political and cultural conditions, a comprehensive programming approach and the mobilization of all partners - public and private - in national development.

7. UNDP, in cooperation with other United Nations agencies and organizations, has assisted a variety of private sector-related activities in response to requests of Governments arising from major changes in their development strategies. It is now necessary for UNDP support in this area to become more focused, more innovative and more effective. To this end, DPSD has been established to act as the focal point for private sector-related activities and as UNDP's interlocutor with the United Nations development system. The allocation of $4 million in SPR funds will support private sector initiatives of a catalytic nature during the fifth cycle. Communication with and coordination of United Nations system activities dealing with private sector development will be strengthened by UNDP involvement at the country level through the respective resident representatives and resident coordinators with support from DPSD.

II. UNDP COMPARATIVE ADVANTAGE

8. In decision 90/34, the Governing Council asked UNDP to promote human development in its programmes. The essence of human development is the process of enlarging people's choices. The private sector can play a key role

in this process by encouraging human creativity, expanding economic and social options and broadening the participatory nature of the development process.

9. As a politically and sectorally neutral partner of developing countries, UNDP is uniquely positioned to assist Governments to mobilize the capacity of the private sector in support of human development. In helping to build partnerships between Governments and the private sector, the approach of UNDP will be guided by its unique mandate to build national capacity in the six areas of focus listed in decision 90/34 including poverty alleviation, the environment, women in development, and management development. Furthermore, through its central funding role, UNDP can assist specialized agencies of the United Nations system in incorporating private sector development concepts in their cooperation with Governments.

10. This comparative advantage is strengthened by the ability of UNDP to draw on the expertise within the United Nations system and private sector entities including the services of high-level volunteer advisers from the business community. The UNDP network of field offices also provides a source of up-to-date information on efforts in various countries to deregulate their economies and to stimulate private sector participation. UNDP can facilitate the exchange of information about these experiences between developing countries through the concept of technical cooperation among developing countries (TCDC). The UNDP country programme, moreover, based on a continuing policy dialogue between the Government and UNDP, can serve as the framework for the technical assistance needed for entrepreneurship and private sector development.

11. The United Nations International Short-Term Advisory Resources (UNISTAR), which provides high-level volunteer advisers mainly from the business community in industrialized countries, is a unique mechanism in UNDP for providing cost-effective multilateral advice in support of private sector initiatives in developing countries.

III. STRATEGY

12. UNDP strategy for the private sector in development builds upon the comparative advantage identified above as well as lessons learned from previous UNDP technical cooperation activities related to the private sector. These include:

(a) Special attention should be given to the role of the Government in formulating policies that support private initiatives;

(b) The exchange of experiences in private sector development should be encouraged among developing country Governments;

(c) The private sector should be made more aware of the issues of human development, gender discrimination, environmental concerns and social responsibility;

(d) In small and medium-sized enterprises, both formal and informal, emphasis should be placed on identifying real needs, devising practical solutions, providing necessary skills and assisting key individuals and institutions;

(e) The seeming dichotomy between social good and corporate profit should be addressed through regular dialogue; and

(f) The capacity of the United Nations development system should be enhanced and coordination improved.

13. In compliance with the relevant General Assembly resolutions and Governing Council decisions, and based on the expressed needs of Governments, a two-pronged strategy has been developed for the fifth cycle. This will be further elaborated by feedback from Governments, field offices and United Nations system organizations and agencies.

14. The first prong of the strategy seeks to create a favourable environment for private investment and business. This will be done by reviewing legislation, regulatory procedures and fiscal and trade systems. Advice should be given on how best to formulate policies that are supportive of private investment and the growth of entrepreneurial capacity. In addition, those areas of the public sector that deal with the private sector will be strengthened.

15. The strategy's second prong will support the development of the intellectual infrastructure, institutions and skills needed to expand and improve efficiency in the private sector. This will include:

(a) The provision of necessary knowledge and skills to mobilize national and external resources for investment, including venture capital funds and joint ventures;

(b) The establishment of frameworks and strategies for comprehensive privatization programmes;

(c) Assistance to small and medium-sized businesses by supplying appropriate training, technology, industrial parks and subcontracting mechanisms;

(d) The provision of expert advice on capital market development, including the establishment of stock exchanges and other market mechanisms; and

(e) Improvement in management and performance of State-owned enterprises.

16. The strategy will be implemented with full consideration of activities as trade promotion, market information systems, management training, industrial development and fiscal and monetary reforms funded through country, regional, interregional and global programmes, and through such other sources as the World Bank and the development banks.

17. The strategy emphasizes the need to incorporate the informal sector into the organized formal sector through credit development and skills training for small enterprises and the self-employed. In conjunction with business associations, women's groups and concerned non-governmental organizations (NGOs), UNDP private sector-related activities will raise awareness of issues concerning women in development, the environment and poverty alleviation.

18. In providing this support, national execution will be the preferred modality wherever possible. At the same time, specialized inputs will be provided from UNDP and the United Nations system. The use of national advisers and consultants will be supplemented by international expertise as needed. The offices of the resident representatives and resident coordinators will be strengthened with support from nationally engaged volunteer private sector advisers. These national advisers could assist in identifying opportunities for cooperation on the subject with other countries under the concept of TCDC and the idea of twinning of enterprises for mutual benefit and exchange of experience and know-how. Training workshops and study tours will develop the human resources needed to sustain this effort. The country programme will be the main vehicle for private sector development. It will be designed to ensure linkage between different activities and to ensure that they are carried out in the most effective sequence. A trust fund has also been established by the Administrator to mobilize additional resources needed from both private and public sources. Seed money provided by UNDP to formulate comprehensive programmes related to the private sector will assist Governments to secure additional resources from multilateral and bilateral sources. UNDP will cooperate in the establishment of creative and innovative investment schemes adapted to local conditions, while meeting the standards required by foreign and national investors.

19. Another feature of the UNDP strategy is the adaptation of proven concepts to the particular conditions of a country, testing them through pilot projects and disseminating the results in the form of modules readily available for reference and replication in other countries. For example, the venture capital concept which provides equity financing for small and medium-sized enterprises is being tested and is being replicated elsewhere. Another concept is the "Turn-Around Management" of government-owned enterprises designed to improve performance and facilitate privatization through a phased programme that switches public enterprises to commercial management. Included in these concepts are guarantees to facilitate access to credit for small enterprises run primarily by women in developing countries.

20. All of these concepts, approaches and modules are being integrated into a comprehensive reference service comprising a database of high-level experts and consultants, including national and international volunteer advisers. The service will link up with those of other United Nations system organizations to facilitate communication and coordination. This will help to ensure that UNDP technical cooperation will continue to be innovative and prompt. Finally, the evolving role of the private sector will require continuous monitoring and evaluation.

IV. RELATIONS WITH OTHER ORGANIZATIONS AND AGENCIES OF THE UNITED NATIONS SYSTEM

21. UNDP is fully aware of the importance of strengthening coordination and communication among United Nations system agencies and other organizations involved in matters relating to the private sector. At the field level, efforts are being made by resident representatives and resident coordinators to involve all agencies concerned in the development of the private sector components of the country programme. Similarly, efforts are being made to link UNDP technical cooperation to World Bank and regional bank investment programmes dealing with business development and entrepreneurship promotion to maximize the effective use of resources and to avoid unnecessary duplication.

22. DPSD has sent missions to meet with officials from the United Nations Industrial Development Organization (UNIDO), the International Labour Organisation (ILO), the United Nations Conference on Trade and Development (UNCTAD), the International Trade Centre (ITC), the International Finance Corporation (IFC), the World Bank, the International Telecommunication Union (ITU) and the World Intellectual Property Organization (WIPO) to harmonize approaches and exchange information on relevant experiences.

23. UNDP is actively supporting a number of initiatives and joint programmes with the Department of International Economic and Social Affairs, IFC, the Multilateral Investment Guarantee Agency (MIGA), the United Nations Centre on Transnational Corporations (UNCTC), the World Bank, ILO, UNIDO and ITC. In collaboration with the World Bank, IFC, and MIGA, UNDP has been involved in the creation of facilities that are intended to promote the efficiency of the private sector. Various project development facilities (African Project Development Facility, Pacific Project Development Facility, Investment Feasibility Study Facility) are designed to help entrepreneurship development and investment promotion. A UNDP technical cooperation programme, collaborating with IFC/MIGA and executed by the Foreign Investment Advisory Services (FIAS), is targeting improvement in the environment and facilitating foreign direct investment. The African Management Services Company (AMSCO) has been set up in cooperation with UNDP and IFC to improve the management and financial viability of enterprises in Africa.

24. The Investment Feasibility Study Facility, managed by the Investment Development Office, promotes UNDP pre-investment funded activities. It is now fully integrated with DPSD and is being utilized in full cooperation with the Food and Agriculture Organization of the United Nations (FAO) investment centre, UNIDO, ILO, ITC and the United Nations Educational, Scientific and Cultural Organization (UNESCO).

25. UNDP and UNIDO have had discussions regarding the involvement of UNIDO Country Directors in the promotion of the private sector in industrial development. This will further increase the capacity of the United Nations system to work effectively at the country level. UNDP and UNIDO are also collaborating on the organization and follow-up of a large number of "investment forums" held with success in many countries to promote investment, joint ventures and business development.

26. UNDP and ILO are developing modules for human resource development and entrepreneurship training in the private sector. This includes collaboration with employers and labour associations and with such intermediary groups as chambers of commerce and industry. UNISTAR activities have been fully integrated into DPSD. Requests for these high-level volunteer advisers, mainly from the business community, have grown threefold since 1990 and the number of UNISTAR-type missions have more than doubled in the 1990-1991 period. The base for recruitment of the volunteer advisers has widened considerably to cover different regions of the world. It is expected that the demand for these services will continue to expand rapidly during the fifth cycle with the inclusion of more countries in the sphere of UNISTAR activity. The growth of UNISTAR and the increase in demand for DPSD's substantive inputs and activities in support of private sector development will require additional staff to ensure a sustained and effective effort. While the Administrator will try to satisfy requirements within existing UNDP resources, this issue will be kept under review.

27. Drawing on its particular comparative advantage and the strategy outlined above, UNDP will continue to strengthen its cooperation with relevant United Nations system partners and with other organizations in order to maximize the effective use of resources and to bring the development of the private sector into the mainstream of the development process.